Audit Report

OFFICE OF THE INSPECTOR GENERAL

COMMISSARY REVENUES

Report No. 94-183

September 6, 1994

Department of Defense

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Acronyms

DeCA	Defense Commissary Agency
DFAS-CO	Defense Finance and Accounting Service - Columbus Center
SAVES	Standard Automated Voucher Examination System

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

September 6, 1994

MEMORANDUM FOR DIRECTOR, DEFENSE COMMISSARY AGENCY
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE - COLUMBUS CENTER

SUBJECT: Audit Report on Commissary Revenues (Report No. 94-183)

We are providing this report for your review and comment. The report discusses improvements necessary to produce auditable financial statements in the specific area of commissary revenues. Management comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Therefore, we request that the Director, Defense Finance and Accounting Service - Columbus Center, provide comments on two unresolved recommendations by November 4, 1994. This report identifies no quantifiable monetary benefits.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Robert J. Ryan, Audit Program Director, at (703) 604-9418 (DSN 664-9418) or Mr. Thomas D. Kelly, Audit Project Manager, at (215) 737-3886 (DSN 444-3886). The distribution of this report is in Appendix C. The audit team members are listed on the inside back cover of this report.

Robert J. Lieberman

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Assistant Inspector General
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Office of the Inspector General, DoD

Report No. 94-183 **September 6, 1994**
(Project No. 3LA-2002)

COMMISSARY REVENUES

EXECUTIVE SUMMARY

Introduction. The Defense Commissary Agency (DeCA) receives most of its revenues from sales to commissary customers at checkout. Sales revenue is deposited in the Resale Stock Fund and the 5 percent surcharge proceeds go into the Surcharge Collections Fund. Other sources of revenues include vendor credits for damaged or slow moving merchandise, charge sales, payments on previously dishonored checks, and sales of scrap and old equipment. The Defense Finance and Accounting Service - Columbus Center provides DeCA with most of its accounting services. For FY 1993, the Defense Finance and Accounting Service - Columbus Center reported that DeCA collected about $6 billion in revenue.

Objectives. This audit was initially undertaken to evaluate DeCA's FY 1993 financial statements, but because a reasonable prospect of DeCA producing auditable FY 1993 financial statements did not exist, we focused our effort on identifying improvements that could affect the accuracy of future financial statements in the specific area of commissary revenues. Our objectives were to evaluate the adequacy of DeCA's internal control structure for processing and recording revenues as well as its implementation of the DoD Internal Management Control Program as it relates to commissary revenues.

Audit Results. DeCA's internal control structure for processing and recording revenues was not adequate. Specifically:

o DeCA did not promptly collect credits owed by vendors. As a result, cash available to buy resale stock could be restricted by about $6 million a year, and revenue losses could occur. The $6 million figure is not based on a valid statistical projection, but is shown to indicate the potential magnitude of the problem (Finding A).

o Debts from commissary charge sales were not collected promptly. As a result, cash available to buy resale stock could be restricted by about $100 million a year, and revenue losses could occur. The $100 million figure is not based on a valid statistical projection, but is shown to indicate the potential magnitude of the problem (Finding B).

o Dishonorable check writing and tardy repayment by customers was not minimized. As a result, cash available to buy resale stock could be restricted, and revenue losses could occur (Finding C).

o DeCA did not adequately safeguard and account for cash receipts. As a result, a significant risk of theft or loss of revenue existed (Finding D).

Internal Controls. The audit identified material internal control weaknesses, and the implementation of the DoD Internal Management Control Program was inadequate to ensure the effective processing and recording of revenues. We determined that

internal controls were not established or effective to ensure that commissary revenues were properly processed, recorded and safeguarded. A discussion of the controls assessed is in Part I; a discussion of weaknesses identified is in Part II.

Potential Benefits. The monetary benefits could not be quantified.

Summary of Recommendations. We recommend that the Director, DeCA, and the Director, Defense Finance and Accounting Service - Columbus Center, establish controls and amend or create procedures for processing and recording revenues. We also recommend that the Director, DeCA, request the U.S. Air Force to provide security escorts for all deposits of cash receipts.

Management Comments. The Director, DeCA, either agreed or partially agreed with all our findings and recommendations. The Director, DeCA, stated that he will provide copies of this report to regions for action and will have headquarters personnel spot check deficient areas while reviewing store operations. The Director, DeCA, disclaimed responsibility for implementing the draft recommendation to program the Standard Automated Voucher Examination System to reclassify as receivables those vendor credits that are not automatically deducted from vendor invoices after 30 days. The Director, Defense Finance and Accounting Service - Columbus Center, agreed with our findings and recommendations, except for establishing an interfund system for collecting commissary charge sales. A discussion of management comments and audit responses to those comments are in Part II of this report. The complete text of management comments is in part IV of the report.

Audit Response. The Director, DeCA, comments were generally responsive. The intent of our recommendations was to strengthen internal controls at the service center and commissary store levels so that compliance with DeCA directives can be improved. By requiring more attention by the regions to store level controls, the Director is recognizing that merely reiterating what is in the directives will not ensure that better compliance is achieved. Based on the Director, DeCA, comments, we revised the recommendation to establish an accounts receivable for vendor credits and redirected the recommendation to the Director, Defense Finance and Accounting Service - Columbus Center. The Director, Defense Finance and Accounting Service - Columbus Center, comments were not responsive on the recommendation to use interfund billing procedures and were not received for another. Accordingly, we request the Director, Defense Finance and Accounting Service - Columbus Center, to provide comments on the recommendations by November 4, 1994.

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This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense.

Part I - Introduction

Background

Defense Commissary Agency Mission and Revenue Sources. The Defense Commissary Agency's (DeCA) mission is to sell groceries and household goods to its customers at the lowest possible prices, consistent with quality. DeCA has three sources for funding commissary operations: the Resale Stock Fund, for the purchase of resale merchandise; the Surcharge Collections Fund, for the payment of store operational expenses and the acquisition of equipment and construction; and the Operations and Maintenance Fund, for the payment of payroll and overhead expenses. Store customers supply DeCA with most of its revenues at checkout through sales, including a 5-percent surcharge, which are deposited into the Resale Stock Fund and the Surcharge Collections Fund. Other sources of revenues are through vendor credits for damaged or slow moving merchandise, charge sales, payments on previously dishonored checks, and sales of scrap and old equipment.

Revenue Collecting and Accounting Responsibilities. Three activities play important roles in collecting and accounting for DeCA revenues.

o Commissary stores are to collect and safeguard revenues on hand, make timely deposits, promptly prepare necessary paperwork, enter pertinent information into the stores' automated business systems, and transmit that information to the cognizant service center.

o DeCA's two service centers, East and West, are to validate information from the commissary stores and reconcile the information with official accounting records maintained by the Defense Finance and Accounting Service - Columbus Center (DFAS-CO).

o DFAS-CO provides DeCA with most of its accounting services and, as such, is to record revenues and reconcile balances with the U.S. Treasury and to bill and collect most revenues owed DeCA. For FY 1993, DFAS-CO reported that DeCA collected about $6 billion in revenues.

Objectives

This audit was initially undertaken to evaluate DeCA's FY 1993 financial statements, but because a reasonable prospect of DeCA producing auditable FY 1993 financial statements did not exist, we focused our effort on identifying improvements that could affect the accuracy of future financial statements in the

specific area of commissary revenues. Our objectives were to evaluate the adequacy of DeCA's internal control structure for processing and recording revenues, as well as its implementation of the DoD Internal Management Control Program as it relates to commissary revenues.

Scope and Methodology

We examined records from 15 of the 231 commissary stores in the continental United States. The 15 commissary stores were judgmentally selected based on a mix of sales, military Service customers, regions, and amount of previous audit coverage. We examined store records from the first two quarters of FY 1993, including source documents, logs, journals, and store business system reports. We also observed physical controls at the stores between January and March 1993. We examined records and system reports at the DeCA service centers, where the data from the 15 commissary stores were validated and processed in the Standard Automated Voucher Examination System (SAVES) and the Automated System for Army Commissaries. At DFAS-CO, for the 15 commissary stores, we examined records and system reports and obtained and analyzed data from the Standard Financial System.

We used computer-processed data from DeCA and DFAS-CO. We did not independently verify the source data. The dollar calculations of the effects of reported deficiencies were computed to show potential impact and not to quantify potential monetary benefits. Our computations were not based on statistical sampling techniques, and no statistical projections are possible.

This financial related audit was made from December 4, 1992, through March 31, 1994, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, the audit included tests of internal controls as were considered necessary. Appendix B lists the organizations that we visited or contacted.

Internal Controls

Internal Controls Assessed. We reviewed the implementation of the DoD Internal Management Control Program and internal controls applicable to ensuring that commissary revenues were properly processed and recorded.

Adequacy of Internal Controls. The audit identified material internal control weaknesses as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. We determined that internal controls were not established or were not effective to ensure that commissary revenues were processed, recorded, and safeguarded.

The audit disclosed that DeCA did not fully implement the DoD Internal Management Control Program in areas related to processing and recording commissary revenues. Specifically, internal controls over the timely processing of vendors credits, the prompt collection of charge sales, the prompt collection of dishonored checks, and the safeguarding and accounting for cash receipts were not implemented. At the time of our audit, DeCA implementation of the DoD Internal Management Control Program focused on establishing an improvement program for DeCA-wide operational and administrative functions. As such, management control program responsibilities were established at the region and headquarters levels, and vulnerability assessments were made of known major problem areas, such as automatic data processing equipment and fixed assets. Because the same coverage and emphasis was not extended to the commissary store and service center levels, the material internal control weaknesses we identified were not surfaced and resolved.

All recommendations in this report, if implemented, will assist in correcting the material internal control weaknesses identified. Potential monetary benefits associated with the recommendations were undeterminable because our computations were not based on statistical sampling techniques. A copy of the report will be provided to the senior official responsible for internal controls in the Office of the Secretary of Defense and in DeCA.

Prior Audits and Other Reviews

Since DeCA began operations on October 1, 1991, no previous audits or other reviews specifically related to revenue processing and recording have been performed.

Other Matters of Interest

In addition to the material internal control weaknesses, we also identified several nonmaterial weaknesses that warrant correction. The weaknesses were not direct causes of the findings reported but, if unchecked, the weaknesses

could eventually have a negative effect on revenue processing and recording. The monmaterial internal control weaknesses are discussed in Appendix A.

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Part II - Findings and Recommendations

Finding A. Vendor Credits

DeCA did not promptly collect credits owed by vendors. The condition occurred because commissary stores and service centers did not follow prescribed processing and reconciliation procedures and because the Standard Automated Voucher Examination System (SAVES), which contains an automatic collection feature, was not programmed to collect from all potential vendors or account for uncollected credits as receivables. As a result, cash available to buy resale merchandise could be restricted by about $6 million annually, and revenue losses could occur. (The $6 million figure is not a valid statistical projection, but is shown to indicate the potential magnitude of the problem.)

Background

DeCA Directive 70-6, "Financial Procedures for Commissary Management Support Center," July 23, 1993, contains procedures for regions, commissary stores, and central distribution centers to follow when obtaining credit from vendors. Credits are to be solicited and accepted from vendors for situations such as merchandise shortages and price reductions on slow-moving items. Regions, commissary stores and central distribution centers are to document vendor credits on DeCA Form 70-10, "Vendor Credit Memo."

Regions, commissary stores, and central distribution centers are to enter DeCA Form 70-10 information into SAVES through their automated business systems and send copies of the uncollected vendor credits to one of DeCA's two service centers. DeCA uses SAVES to process payments to vendors. Vendors can pay the activities for the credits directly by check or, if they prefer, pay the appropriate service center. SAVES is designed to automatically deduct the credit from a vendor's next invoice, if the vendor has not paid the appropriate service center within 30 days.

Regions, commissary stores, and central distribution centers are to maintain a daily log (DeCA Form 70-11, "Vendor Credit Memo Document Log") to track the disposition of each vendor credit accepted. Accepting activities are also to maintain a daily journal (DeCA Form 70-12, "Store Block Control Journal," or an automated equivalent) to document information that was entered into SAVES and transmitted to the service centers. Accepting activities are also to send copies of DeCA Form 70-12 each week to their assigned service center. According to DeCA Directive 70-16, "Analysis and Reconciliation Operations Procedures," July 10, 1992, the service centers are to reconcile SAVES data to DeCA Form 70-12 and investigate and correct any discrepancies. Discrepancies can affect contractor payments as well as financial accounting records.

Processing and Reconciliation Procedures

Vendor credits were often not collected promptly because commissary stores and service centers did not follow prescribed processing and reconciliation procedures. During the first quarter of FY 1993, the 15 commissary stores we reviewed accepted 2,224 vendor credits valued at $635,757; however, 267 (12 percent) of the credits were not collected within 30 days. The 267 credits, valued at $97,937 (15 percent), remained uncollected for 4 to 7 months. That translated into an annual average of $26,100 of delayed payments per store for the 15 stores we reviewed. Both the stores and the assigned service centers failed to follow procedures.

Procedural Breakdowns at Commissary Stores. The 15 commissary stores in our review did not fully follow prescribed procedures for processing vendor credits. DeCA Directive 70-6 provides control techniques and documentation requirements as a means of ensuring that stores enter vendor credits into SAVES and transmit the information to the assigned service center. The lack of attention and the lack of emphasis seemed to be the main reasons for the commissary stores not fully following prescribed procedures for processing vendor credits.

For example, DeCA Directive 70-6 requires commissary stores to enter vendor credit information into SAVES on the same day that vendor credits are accepted and no more than 24 hours after the conclusion of the period the vendor credits cover. The commissary stores entered 17 percent of the vendor credits 2 or more days after acceptance. The directive also requires commissary stores to enter vendor credits into SAVES for each vendor credit accepted. Within the 15 commissary stores, 44 vendor credits were accepted but not entered into SAVES. For 23 of the 44 memos, valued at $26,345, the vendors had not paid the commissary stores or the service centers. Therefore, collection was unlikely because SAVES could not automatically deduct the amount owed from the vendors' invoices after 30 days. The directive further requires commissary stores to record cross-reference information of accepted vendor credits on DeCA Form 70-11 and DeCA Form 70-12. At 8 of the 15 commissary stores, credit memos were recorded on either DeCA Form 70-11 or DeCA Form 70-12, not both. Additionally, the 15 commissary stores recorded inaccurate cross-reference information.

Procedural Breakdowns at Service Centers. The two service centers did not fully follow DeCA Directive 70-16 procedures for reconciling information that commissary stores entered into SAVES with information shown on copies of DeCA Form 70-12 and the vendor credits that stores submitted. The service centers had all the information necessary from the 15 commissary stores reviewed to ensure that vendor credit information was entered properly into SAVES so that automatic deductions from vendor invoices could be accomplished if not paid by the vendor within 30 days. As previously indicated, however, vendor credits that stores had not entered into SAVES had gone undetected for 4 to 7 months. Responsible personnel at the service centers attributed the lack of effective reconciliations to the performance of higher priority work.

SAVES Processing Shortcomings

Even if the commissary stores and service centers had followed all prescribed procedures, delays in collecting some vendor credits would still have occurred because of SAVES processing flaws in identifying vendors and accounting for uncollected credits as receivables.

Vendor Identification. SAVES was not programmed to accept or process vendor credits for all types of vendors. SAVES was programmed to accept credit information based solely on resale contract numbers. Of the 267 uncollected vendor credits in our sample, 125 involved vendors whose primary business was not resale but distribution. Those vendors acted as distributors for major manufacturers. The invoice amounts applicable to the distributors' resale contracts were not large enough to deduct vendor credits resulting from their distributing activities. When store personnel processed the vendor credits, SAVES would not process the deductions because of insufficient invoice amounts.

The remaining 142 vendor credits involved vendors that had multiple resale contracts with DeCA. In most cases, the multiple resale contracts were recorded in SAVES, but the outstanding amounts consisted of only one or two vendor credits or the sales were of a cyclical nature, such as holiday speciality merchandise. In those cases, SAVES did not process the vendor credits because of the different contract numbers involved or because SAVES was programmed to process the vendor credits only when sufficient cyclical sales were available to offset the vendor credits.

Further, at some commissary stores, store personnel could not identify distributors by their contract number because the distributors did not have a DeCA contract as required for SAVES processing. Commissary store personnel prepared the vendor credits but did not process them. To provide for the prompt payment of all vendor credits, processing procedures should be established to cover vendors whose invoice amounts applicable to their resale contracts are not large enough to allow for automatic invoice deduction of credits, or who have only a few credit memos to offset against multiple contracts, or who are distributors without a DeCA resale contract.

Accounting Classification. SAVES was not programmed to account for delinquent uncollected vendor credits as receivables. SAVES was designed to deduct the vendor credit from a vendor's invoice, if the vendor had not paid the commissary store or the appropriate service center within 30 days. Because of the automatic deduction feature, unpaid vendor credits were accounted for as contra accounts payable on the presumption that the unpaid vendor credits would be liquidated by vendor payment within 30 days or would be offset shortly against a vendor invoice. The 267 vendor credits in our sample, however, had not been deducted from vendor invoices and remained uncollected for 4 to 7 months. From an accounting and control standpoint, those uncollected vendor credits should no longer have been considered contra accounts payable. Rather, the uncollected vendor credits should have been classified as accounts receivable, thus requiring aging and active pursuit of

reimbursement. To ensure that uncollected credits are pursued aggressively, SAVES should be programmed to reclassify contra accounts payable as receivables if the contra accounts payable are not liquidated within 30 days.

Financial Effect

Collecting vendor credits late unnecessarily restricts cash available to buy resale merchandise and allows for possible revenue losses. The 15 commissary stores we visited varied in size and encompassed all the Military Departments and each region of the continental United States. All commissary stores and service centers used SAVES to record, track and collect vendor credit memos.

It is clear that the $97,937 of delayed payments at the 15 stores we reviewed represents a problem that is not limited to these 15 stores. We could take the magnitude of the problem from the 15 commissary stores and calculate an annual $6 million restriction on the cash and purchasing ability of all stores within the continental United States. The $97,937 also included $26,345 of vendor credit that were unrecorded and uncollected. Again, it is clear that the $26,345 represents a problem that is not limited to those 15 commissary stores. We could take the magnitude of the problem from the 15 stores and calculate an annual $1.6 million cash loss that could be realized at all stores within the continental United States.

It is important to note that, to indicate the potential magnitude of the problem and the effect on the financial statements, we have taken our nonstatistical results at 15 commissary stores and calculated an annualized amount for all commissary stores. The calculation is not a valid statistical projection because the calculation was not based on statistical sampling techniques and no statistical projections are possible. Other than the potential operational impacts on cash, loss and restriction of cash could materially affect the financial recording of other related major accounts of inventory, sales, receivables, and payables.

Recommendations, Management Comments, and Audit Response

Renumbered, Revised, and Redirected, Recommendations. We renumbered draft Recommendations A.1. through A.4 to Recommendations A.1a., A.1b., and A.1c. and Recommendation A.2. Recommendation A. 2. has been revised and redirected from the Director, Defense Commissary Agency to the Director, Defense Finance and Accounting Service - Columbus Center.

1. We recommend that the Director, Defense Commissary Agency:

a. Establish controls to ensure that activities that solicit and accept vendor credits follow the procedural requirements of Defense Commissary Agency Directive 70-6, "Financial Procedures for Commissary Management Support Center," July 23, 1993.

b. Establish controls to ensure that service centers perform monthly reconciliations of vendor credits entered into the Standard Automated Voucher Examination System to store block control journals and hard copy documentation.

c. Establish and implement specific procedures for processing and collecting vendor credits from all vendors and distributors of merchandise, regardless of invoice amounts applicable to vendor contracts or type of sales.

Management Comments. The Director, DeCA, partially agreed with the recommendations, stating that DeCA Directive 70-6 establishes procedures for accepting, processing, and collecting vendor credits and for performing monthly reconciliations.

Audit Response. The Director, DeCA, comments are generally responsive, when read in the context that this report will be sent to the regions for action.

2. We recommend that the Director, Defense Finance and Accounting Service - Columbus Center, establish an accounts receivable for recording and seeking collection of vendor credits that are not automatically deducted from vendor invoices after 30 days.

Management Comments. The Director, DeCA partially agreed with the recommendation but stated that it was not DeCA's responsibility to recognize uncollected vendor payments as accounts receivable. Based on the Director, DeCA, comments, we revised and redirected draft Recommendation 4. to the Director, DFAS-CO.

Audit Response. We request the Director, DFAS-CO, to comment on Recommendation A. 2. in his response to the final report.

Finding B. Charge Sales

Debts from commissary charge sales were not collected promptly. The condition occurred because Federally funded customers were billed using an inherently slow collection system, and non-Federally funded activities did not promptly provide receipt information to paying offices. Additionally, the Defense Finance and Accounting Service-Columbus Center (DFAS-CO) did not follow up on delinquent payments, and commissary stores did not ensure that charge sales were properly documented. As a result, cash available to buy resale stock could be restricted by about $100 million annually and revenue losses could occur. (The $100 million figure is not a valid statistical projection, but is shown to indicate the potential magnitude of the problem.)

Background

DoD Regulation 1330.17-R, "Armed Services Commissary Regulation," April 1987, authorizes certain organizations to charge purchases of commissary merchandise. Those organizations include Federally funded customers, such as troop support activities, military hospitals, National Guard and Reserve units, embassies, and DoD dependent schools. Non-Federally funded customers such as the American Red Cross and the Services' morale, welfare, and recreational activities are also authorized to charge commissary purchases.

Commissary customers, commissary stores, and DFAS-CO have important roles in collecting charge sales promptly.

Commissary Customers Role. Commissary customers are required to submit two forms to DeCA to establish a charge account for making purchases on credit at commissary stores. To establish a charge account, customers must submit DeCA Form 70-8, "Commissary Charge Account Request," to the appropriate commissary store. DeCA Form 70-8 is used as the basis for establishing an account number. It identifies the customer and the customer's paying office. To order merchandise from a commissary store, customers must fill out DeCA Form 70-20, "Subsistence Request for Issue or Turn-In." DeCA Form 70-20 shows the customer's order and all the necessary billing information. Customers and their paying offices are required to pay for charge sales within 30 days of the billing date.

Commissary Store Role. Commissary stores are responsible for reviewing customer source documents for accuracy and completeness, and for entering charge sales data into the store business system. Commissary store personnel are to enter charge sales into the business system daily so that the inventory and financial records are kept current and accurate. The commissary stores' business system automatically feeds into the DeCA automated inventory system, which the DeCA service centers maintain. The DeCA automated inventory system feeds into the official accounting system maintained by DFAS-CO.

DFAS-CO Role. DFAS-CO is responsible for establishing an accounts receivable for each charge sale, for billing customers, and for collecting monies owed to DeCA. DFAS-CO is to establish individual charge accounts based on the receipt of DeCA Form 70-8 from commissary stores through the service centers.

Collection Results

Debts from commissary charge sales were not collected promptly primarily because Federally funded customers were billed using an inherently slow collection system, and non-Federally funded activities did not promptly provide receipt information to paying offices. We reviewed the December 1992 processing of charge sales made by 15 commissary stores located in the continental United States. During December 1992, 200 customers of the 15 commissary stores made about 2,400 charge sales for merchandise valued at about $578,000. As of January 5, 1993, DFAS-CO had prepared 200 bills for the merchandise bought on credit. As of February 4, 1993, the final date that customers and their paying offices had to pay the charges on time, DeCA had been reimbursed only about $40,000. Late payments for December averaged $35,900 per store for the 15 commissary stores reviewed. As of April 1993, DeCA still had not been reimbursed for about $465,000, or 80 percent of the merchandise bought on credit in December 1992.

Federally Funded Customers. No Federally funded charge sales were collected promptly. About 120 (67 percent) of the bills and $518,000 (96 percent) of the funds not paid within 30 days involved Federally funded customers. Payment delays occurred primarily because the DFAS-CO employed a collection process for Federally funded customers that inherently took more than 30 days to complete. The collection process required paying offices and finance and accounting centers to disburse and process transactions from other paying offices and finance and accounting centers. For Federally funded customers, particularly those serviced by a paying office of another Military Department, that method of payment normally takes at least two finance and accounting centers several months to process and reconcile transactions before funds can be deposited into DeCA's resale stock fund account.

While the collection method DFAS-CO employed was fundamentally sound, the method has long been recognized as error prone and too time-consuming by activities engaged in resale businesses similar to DeCA's. Responsible personnel at DFAS-CO found no benefits in continuing to use the method. Other resale activities, such as the Defense Logistics Agency, were financially supported by an interfund billing system, whereby the servicing finance and accounting center automatically makes payments by transferring customer funds within the Treasury of the United States. Paying offices have the opportunity to accept or reverse the fund transfers. Use of interfund billings for Federally funded customers would virtually eliminate any delays in collecting funds from Federally funded customers.

Non-Federally Funded Customers. Approximately half of the non-Federally funded customers did not pay charge sales on time. Several reasons were identified for the late payments; however, slowness in the billing process of non-federally funded customers was the primary reason. Customers were not providing receipt documentation to their paying offices promptly. Delays for 15 (39 percent) of the 38 bills not paid within 30 days were attributed, in part, to paying offices not having the related receipts (DeCA Form 70-20) on hand. After obtaining merchandise, customers should provide receipts to their paying offices.

Most non-Federally funded customers, such as bowling centers and child support facilities, who did not promptly furnish their paying offices with DeCA Form 70-20 were unaware of their responsibility to do so. For those customers, the actual shopping at commissaries and processing receipt information is often rotated among support facility employees; hence the responsibility to provide paying offices with DeCA Form 70-20 is not institutionalized among non-Federally funded customers and can easily be forgotten. The problem could possibly be mitigated if non-Federally funded customers were reminded of their responsibility at the time of each purchase by the management support center of the commissary store.

DFAS-CO Follow Up

DFAS-CO contributed to collection delays by not effectively following up with delinquent customers and paying offices. DFAS-CO did not have a systematic method of following up on delinquent accounts for the 15 stores in our sample. In discussing receivables, the DoD Accounting Manual 7720.9-M states that finance and accounting activities should establish procedures to routinely age all amounts overdue so that appropriate actions can be taken to make collection. The DFAS-CO automated resale accounting system automatically ages accounts receivable. In addition, the automated resale accounting system contains an automatic feature that generates follow-up letters for delinquent accounts receivable.

At the time of our audit, however, DFAS-CO had not activated the automatic follow-up feature because DFAS-CO was not sure whether the accounts receivable were valid. Instead, DFAS-CO had resorted to telephoning customers and paying offices, and in so doing, had managed to follow up on only a small percentage of delinquent accounts at 1 of the 15 commissary stores in our sample. The automatic follow-up feature should be employed, as it is the quickest and surest way to determine the validity of a large number of accounts receivable and to collect amounts due.

Commissary Store Documentation

Commissary stores also contributed to collection delays by not ensuring that charge sales were properly documented. We inspected the two source documents, DeCA Forms 70-8 and 70-20, that the 15 commissary stores were responsible for processing into inventory and financial accounting systems during December 1992.

DeCA Form 70-20. Many of the 200 bills for commissary charge sales in December 1992 were not supported by completed DeCA Forms 70-20. DeCA Form 70-20 is used by paying offices as a receipt to provide information needed to match a specific bill. A bill represents a month's activity and is normally made up of at least several DeCA Forms 70-20. We selectively sampled 459 DeCA Forms 70-20 and found omissions on forms that 14 of the 15 commissary stores in our sample processed. The forms did not contain document numbers, activity address codes, account processing codes, block numbers, unit prices, signatures and dates, as required. None of the omissions would necessarily cause payment delays by themselves; however, several omissions occurring at one time on one form could impede payment and follow up by not allowing the paying office to match the bill number with the correct DeCA Form 70-20. The omissions occurred because commissary stores were not requiring customers to fill out DeCA Forms 70-20 completely.

DeCA Form 70-8. Of the 200 bills for commissary charge sales in December 1992, only 89 were supported by complete DeCA Forms 70-8. DeCA Form 70-8 is needed by DFAS-CO to follow up on delinquent accounts, because one of the form's purposes is to identify a point of contact and a telephone number at the paying office. For 13 of the 200 commissary charge sales bills, customers prepared DeCA Forms 70-8 but did not identify a point of contact and a telephone number. In those cases, the commissary store personnel were inattentive in ensuring that the forms were filled out completely. For another 98 of the 200 commissary charge sales bills, customers did not prepare DeCA Form 70-8. The customers had charge accounts before DeCA was established, and their accounts were continued by simply making data entries into the DFAS-CO automated accounting system. However, hard copies of the data entries at DFAS-CO did not include a point of contact or a telephone number. Responsible personnel at DFAS-CO stated that missing points of contact and telephone numbers added to their frustration when processing thousands of delinquent accounts and inevitably delayed the follow-up process.

Financial Effect

Not promptly collecting funds owed for charge sales unnecessarily restricted cash available to buy resale stock fund merchandise and allowed revenue losses. The 15 commissary stores we visited varied in size and encompassed all the Military Departments and each region of the continental United States. All commissary stores used the same collection process to collect charge sales. It is

clear that the average $35,900 a month of late payments at the 15 commissary stores we reviewed represents a problem that is not isolated to these 15 commissary stores. For example, we could take the magnitude of the problem from the 15 commissary stores and calculate an annual $100 million restriction on the cash and purchasing ability of all stores within the continental United States. It is important to note that, to indicate the potential magnitude of the problem and effect on the financial statements, we have taken our nonstatistical results at 15 commissary stores and calculated an annualized amount for all stores. The calculation is not a valid statistical projection because the calculation was not based on statistical sampling techniques, and no statistical projections are possible.

A pertinent question is how much of the late payments will eventually be collected. Most payment delays can be attributed to the collection process rather than the delinquency of customers and their paying offices. However, because of military downsizing, some customers may no longer patronize the commissary stores. As of April 30, 1993, accounts receivable past due for all commissary stores in the continental United States totaled approximately $31 million, the bulk of which was charge sales. In June 1993, the past due balance increased to about $40 million (29 percent) with about $5.6 million being past due for more than a year. The increase in accounts receivable past due further suggests that some debts from charge sales may actually be uncollectible. Uncollectible debts could materially affect cash and account receivable balances of the Resale Stock Fund and liability accounts of the Surcharge Collections Fund.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Director, Defense Finance and Accounting Service - Columbus Center:

a. Use interfund billing procedures to collect debts for charge sales from Federally funded commissary customers.

Management Comments. The Director, DFAS-CO, nonconcurred and stated that the Standard Financial System does not have the capability to handle interfund billing procedures as a stand-alone system. The Standard Financial System is teamed with the Automated System for Army Commissaries, a supply system which handles the billings in an Army environment. The Automated System for Army Commissaries does not have the capabilities to originate interfund bills. Due to the magnitude of system changes that would be required to accommodate interfund billing, the use of interfund procedures will have to wait until a new system is developed that could replace the Automated System for Army Commissaries.

Audit Response. The Director, DFAS-CO, comments are not responsive. The recommendation is intended to reduce DeCA's large accounts receivable balance

caused by delays in collecting charge sales. The Director, DFAS-CO, comments do not substantiate the difficulty or cost in going to a full interfund system or provide alternatives to reducing DeCA's accounts receivable balance, such as at least collecting from large customers immediately. DeCA's accounts receivable balance has risen from about $40 million at the time of our review in June 1993 to about $178 million as of June 30, 1994. We request that the Director, DFAS-CO, reconsider his position and provide additional comments in his response to the final report.

b. Activate the automatic follow-up feature of its automated accounting system to send a follow-up letter on all delinquent accounts receivable customers.

Management Comments. The Director, DFAS-CO concurred and stated that the automatic follow-up feature of Standard Financial System will be activated by December 31, 1994.

2. We recommend that the Director, Defense Commissary Agency:

a. Require commissary stores to remind non-Federally funded charge customers of their responsibility to provide prompt receipt documentation to their paying offices.

Management Comments. The Director, DeCA, concurred, and stated that the recommended action will be included in the next update to DeCA Directive 70-6, which is projected for March 31, 1995.

b. Establish controls to ensure that commissary stores accept only complete charge sales paperwork from customers.

Management Comments. The Director, DeCA, partially concurred and stated that the charge sale documentation required for new commissary charge sale customers is provided in DeCA Directive 70-6, chapter 4, to include the steps required for approving the customer as a charge sale customer.

Audit Response. The Director, DeCA, comments are responsive.

Finding C. Dishonored Checks

DeCA did not take steps to minimize dishonored check writing for commissary merchandise and the tardy repayment of the debt. The condition occurred because commissary stores did not maintain complete records of customers with suspended check writing privileges and relied too long on voluntary repayment. DFAS-CO did not immediately seek involuntary payment from customers after voluntary payment requests by stores had failed. As a result, dishonored checks represented $2.9 million of DeCA's accounts receivable balance as of April 30, 1993.

Background

Commissary store customers can pay for merchandise by check. An inherent risk of accepting checks is that some checks might not be honored by the financial institutions on which they are drawn, because of insufficient funds or invalid accounts. Depending on the financial institution, checks are returned to stores directly or through DFAS-CO. DeCA Directive 70-6, "Financial Procedures for Commissary Management Support Center," July 23, 1993, provides the procedures for stores to follow when endeavoring to get customers to redeem their dishonored checks. If customers do not redeem dishonored checks within 30 days, the commissary stores are to send the checks to DFAS-CO. DFAS-CO can use various involuntary methods to collect funds, such as taking steps to deduct the amounts owed from the pay of Service members and from Internal Revenue Service refunds or by employing commercial collection agencies.

Commissary stores are to make the first attempt at collection. Commissary stores are to telephone the customer and, if payment is not received within 3 days after the notification, formally issue the customer a notification of indebtedness letter and a suspension of check cashing privilege letter. Additionally, commissary stores are to maintain a register of suspended check writers. The register is to identify all customers whose social security numbers have been entered into automated cash registers so that checks written by customers with the same social security numbers will not be accepted while check writing privileges are suspended. An indefinite suspension can be imposed if three dishonored checks are passed within a 2-year period.

Check Collection Process

Customer dishonored check writing and tardy repayment of those checks was not minimized because commissary stores did not maintain complete records of customers with suspended check writing privileges, and relied too long on

voluntary repayment. From October 1991 through April 1993, commissary customers purchased about $11.2 million of merchandise with 131,567 dishonored checks. The $11.2 million represents less than one-half of 1 percent of the estimated value of checks received by DeCA during that period. To evaluate the prevention and prompt redemption of dishonored checks, we reviewed the operations at 14 commissary stores in the continental United States. We also examined the processing of dishonored checks at DFAS-CO. At the 14 stores, 1,273 checks, valued at $106,285, were dishonored and returned to DeCA or DFAS-CO during the first quarter of FY 1993. Of the 1,273 checks, 266, valued at $19,872, were still uncollected 3 to 6 months later.

Maintaining Records. Commissary stores did not maintain complete records of customers with suspended check writing privileges. Ideally, suspension of check writing privileges should be an effective deterrent to those who might write a dishonored check. However, unless commissary store cashiers can readily identify customers with suspended check writing privileges, the same customers could continue to write dishonored checks and the commissary stores will continue to accept them. About 25 percent of the originators of dishonored checks at the 14 commissary stores we reviewed were not prevented from writing checks even though their check writing privileges were suspended. In each case, the commissary store issued a suspension letter to the originator but did not enter the originator's social security number into the automated cash registers so that the cashiers could identify the social security number as suspended, the key control feature in enforcing the suspension. Because suspensions were not enforced, 5 of the 14 commissary stores accepted additional dishonored checks from customers with suspended privileges during the same time they were attempting to collect for previously written dishonored checks. The commissary stores simply did not follow prescribed procedures for entering social security numbers for suspended check writers into the automated cash registers.

Many originators of dishonored checks also wrote additional dishonored checks at commissary stores other than where check writing privileges were suspended. DFAS-CO maintains a data base on all originators of dishonored checks by commissary store. We queried the data base and identified 5,255 individuals who had written dishonored checks, valued at about $1.4 million, at more than one commissary store since the inception of DeCA in October 1991. One commissary store customer wrote 45 dishonored checks, valued at $1,206, at 9 different stores in 5 regions from August through October 1992. Of the 14 commissary stores we reviewed, 1 accepted 5 bad checks from that individual in October 1992. Had controls over check writing privileges been established to identify and monitor suspensions on a region or agency-wide basis, the recurrence might have been prevented.

Voluntary Repayment. Commissary stores relied too long on voluntary repayment. Commissary stores are to turn over the collection responsibility to DFAS-CO for those dishonored checks still uncollected after 30 days. However, 10 of the 14 commissary stores we reviewed held checks for longer than 30 days before forwarding them to DFAS-CO for involuntary payment actions. The average time the 10 commissary stores held checks ranged from

34 days to 63 days. Debt collection policies indicate that promptness is an important factor in the success of collecting debts. The 10 commissary stores appeared to put little emphasis on promptly transferring collection responsibility after their attempts to obtain voluntary payment had not succeeded.

DFAS-CO Processing. DFAS-CO also contributed to the tardy repayment by not immediately seeking involuntary payment from many customers after voluntary payment requests by stores had failed. Of the 1,273 dishonored checks returned to the 14 commissary stores during the first quarter of FY 1993, 378, valued at about $29,000, were forwarded to DFAS-CO because the commissary stores were unable to collect. For 227 of the dishonored checks that were written by Service members, DFAS-CO either attempted to have the amount owed deducted from the Service members' pay or wrote off the amount if it was less than $100 and owed by a military family member or a separated Service member. For the remaining 151 checks that were written by military family members, plus 48 that could not be recovered from the Service members' pay because of separation of the individuals from the military, DFAS-CO sent out another voluntary payment letter instead of forwarding the checks to a collection agency. The end result was that DFAS-CO collected no additional money owed and delayed the involuntary collection process for at least another 30 days.

Financial Impact

Accepting and not promptly collecting on dishonored checks results in delayed and lost reimbursements to DeCA's Resale Stock Fund. Every dishonored check accepted and not collected represents a revenue loss to the Commissary Resale Stock Fund. From an accounting standpoint, a dishonored check requires a reduction in the resale stock fund cash balance and an increase in accounts receivable. As of April 30, 1993, the accounts receivable balance of the Resale Stock Fund included $2.9 million for dishonored checks with a substantial risk of not being fully paid. About $615,000 of the checks had not been collected for more than a year.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Director, Defense Commissary Agency:

a. Establish controls to ensure that commissary stores enter the social security numbers of customers with suspended check writing privileges into the stores' automated cash registers.

Management Comments. The Director, DeCA, partially concurred and noted that entering the social security numbers of patrons into the automated cash registers is required in DeCA Directive 40-6, chapter 6.

Audit Response. The Director, DeCA, comments are responsive.

b. Consider, in coordination with the Defense Finance and Accounting Service - Columbus Center, the establishment of procedures for identifying and monitoring customers with suspended check writing privileges on a region or agency-wide basis.

Management Comments. The Director, DeCA, concurred and stated that this control will be part of DeCA's new cash register system, which is scheduled for deployment by January 1996. In the interim, DeCA will examine alternatives for monitoring customers with suspended check writing privileges.

c. Establish controls to ensure that commissary stores transfer collection responsibility for uncollected dishonored checks to Defense Finance and Accounting Service - Columbus Center after 30 days.

Management Comments. The Director, DeCA, partially concurred and stated that the procedures for transferring collection responsibility for uncollected dishonored checks to DFAS-CO is provided in DeCA Directive 70-6, chapter 5.

Audit Response. The Director, DeCA, comments are responsive.

2. We recommend that the Director, Defense Finance and Accounting Service - Columbus Center initiate immediate involuntary collection procedures on all dishonored checks valued at $100 or more that were transferred for collection responsibility.

Management Comments. The Director, DFAS-CO, agreed with the recommendation and stated that DFAS-CO has improved the timeliness of involuntary collection actions through utilization of an automated interface to the Defense Joint Military Pay System. Work is in process to develop a similar interface with the Defense Debt Management System to expedite collection of debts of individuals no longer in the military by December 3, 1994.

Finding D. Cash Controls

DeCA did not adequately safeguard and account for cash receipts. The condition occurred because commissary stores did not follow required cash control procedures and service centers did not perform cash reconciliations. As a result, a significant risk of theft or loss of revenue existed.

Background

Commissary store customers use cash or checks to buy the bulk of their merchandise. Both cash and checks are considered cash receipts and are to be controlled from the time of sale until they are deposited into a financial institution. Controls should be in place to prevent theft or loss of cash receipts during high-risk situations, such as when voiding and refunding sales, picking up the cash receipts at registers, holding cash receipts at the stores, and making deposits into financial institutions. Within commissary stores, those control responsibilities are to be carried out by the customer service department. For added control, the management support center is to record and track dishonored checks for collection and prepare reports of deposits. Cash receipt controls prescribed for commissary stores are contained in DeCA Directive 40-6, "Customer Service Department," February 28, 1992; DeCA Directive 40-19, "Security Program," July 31, 1992; and DeCA Directive 70-6. Additionally, DeCA Directive 70-16 prescribes cash receipt reconciliation responsibilities to its service centers. Service centers are responsible for ensuring that cash receipts reported to DFAS-CO agree with sales data reported in the stores' automated business systems.

Store Control Procedures

DeCA did not adequately safeguard and account for cash receipts because commissary stores did not follow required cash control procedures. We reviewed the controls over cash receipts between January and March 1993 at 15 commissary stores located in the continental United States. The 15 commissary stores accounted for $294.7 million (6.7 percent) of the $4.38 billion of total commissary sales for the first three quarters of FY 1993. Annually, commissary stores need to account for about $5.8 billion of cash receipts. We concentrated our review on routines having potentially high risk of theft or loss. The risk of theft or loss existed at 15 stores because of inadequate controls over voids and refunds, register pickups, cash on hand, and deposits.

Voids and Refunds. At 14 of the 15 commissary stores, void and refund sales transactions were not properly authorized. According to DeCA Directive 40-6,

all refunds and those voids of $6 or more require authorizing signatures from customer service supervisors. The authorization is required to deter cashiers from pocketing voids and refunds if their authenticity is not attested to and authorized separately. At the 14 commissary stores, hundreds of the required authorizing signatures were either missing or added after the fact at the end of a sales day or weekend. The supervisors were not fully aware of their control responsibility and signed the void sheets and refund logs after the fact as a matter of convenience. DeCA Directive 40-6 does not explicitly require the segregation of duties among the customer service department personnel so that no single person can authorize as well as record voids and make refunds. Therefore, at one of the stores, the designated authorizer of voids and refunds also served as a substitute cashier.

Cash Register Pick Ups. At 8 of 15 commissary stores, pickups of cash receipts from registers were not prompt and properly restricted. DeCA Directive 40-6 requires that cash receipts be picked up at various intervals to keep the currency in registers below $1,500. Regions can increase the amount to $3,000 for an individual store on a case-by-case basis. The pick-up policies exist to reduce the risk of robbery and to keep end-of day counting to a minimum. On the first day of our visits to the eight commissary stores, we observed that store personnel allowed currency to accumulate in registers up to $2,749, or 83 percent beyond that permitted by directives and authorized by the regions. Responsible store personnel told us that picking up cash receipts was not always convenient when authorized limits were reached. DeCA Directive 40-6 does not explicitly require the segregation of duties among the customer service department personnel so that no single person can pick up cash as well as operate cash registers. Therefore, at one of the commissary stores, customer service department employees served as cash collection agents for the registers as well as substitute cashiers.

Cash On Hand. At 10 of the 15 commissary stores, cash receipts on hand were not adequately protected. Cash on hand exceeded storage limitations at six commissary stores and was not physically protected at six commissary stores.

Storage Limitations. At 6 of the 10 commissary stores, cash receipt storage limitations for nonoperating hours were exceeded during all or a portion of the 2-week period ending February 28, 1993. DeCA Directives 40-19 and 70-6 stress that cash receipts should be deposited daily or the following day. DeCA Directive 40-19 also provides that, if cash receipts on hand at store closing exceed the region-approved dollar limit, the commissary store will use either a night depository or a central depository designated by the installation commander. Three of the six commissary stores were not authorized to keep any funds on hand. The three other commissary stores were authorized to keep on hand as much as $200,000. However, the six commissary stores actually kept as much as 209 percent above their authorized level. The unauthorized amount was kept because the commissary stores did not make prompt deposits or seek sufficient authorization from the regions to retain the level of cash receipts on hand. After our review, one of the commissary stores requested and

received an increase in its storage authorization to $650,000. The request did not explain or document why the preferred policy of night or central depositing could not be followed.

Physical Protection. At 6 of the 10 commissary stores, alarms were not installed or were not functioning, and safe combinations were not changed as prescribed. DeCA Directive 40-19 requires that commissary stores be protected by an intrusion detection system and that separate alarms be provided for funds control rooms and safes. The directive also requires that the system provide motion detection within the funds control room and point detection for the safe. Regarding the safe, the directive requires that safe combinations be changed annually or when knowledgeable persons leave. One commissary store, with daily cash receipts in excess of $80,000, had not had an operational intrusion detection system since 1986. Four of the commissary stores did not have alarms installed for either the funds collection room or the safe. Another commissary store did not have separate alarms for the store and the safe. And five commissary stores, including one without a separate safe alarm, did not abide by the requirement to change safe combinations annually or when responsible persons left. Some people were even given safe combinations without documenting their authority to need or have access to the safe. The commissary stores were either unaware of the prescribed policies for physically protecting cash receipts or neglected to follow them.

Deposits. At 4 of the 15 commissary stores, deposits of cash receipts were not adequately protected and properly restricted. DeCA Directive 40-19 states that an escort is required to move funds between the commissary store and the depository (such escort service is normally provided by the base as a reimbursable service). The escort policy does not appear to have been universally adopted. At one commissary store, the base policy was to provide an escort only if the actual currency exceeded $25,000. However, escorts were seldom provided even though daily cash receipts averaged about $85,000 because most of the receipts were checks. Our discussions with commissary region personnel disclosed that the same currency limitation was in place at many Air Force bases. Limited escort service places deposits as well as employees at unnecessary risk and could result in substantial losses to the commissary stores. For example, personnel from a former Air Force commissary store not included in our review experienced an armed robbery in 1993 while making a night deposit. The base did not provide an escort because the actual currency totaled less than $10,000. Including checks, however, the loss to the store was about $42,000.

Furthermore, collection and deposit responsibilities for receipts were not adequately separated. At two commissary stores included in our review, the same individual in the customer service department prepared reports of deposits and collected cash receipts. Also, DeCA Directive 70-6 provides that the management support center is responsible for preparing reports of deposit and recording and tracking dishonored checks. At two commissary stores, customer service personnel performed all actions for recording and collecting dishonored checks, and they also collected cash receipts, including those for dishonored checks. The commissary stores were unaware that the management support center was responsible for recording and tracking dishonored checks.

Service Center Reconciliations

Service centers did not reconcile cash receipts to sales data. For the 15 commissary stores in our sample, we reviewed the processing and recording of cash receipts for the period February 17 through 28, 1993. Based on reports of deposit sent to the service centers and DFAS-CO, the commissary stores generated about $14.1 million of cash receipts from the sale of merchandise over the almost 2-week period. However, the 15 commissary stores reported only about $13.2 million of sales in their automated business systems over the same period. According to DeCA Directive 70-16, the service centers are to reconcile monthly the commissary stores' entry of sales data into their automated systems with the DFAS-CO reports of deposit. The difference in reported sales and cash receipts of $0.9 million was undetected for at least 3 months. Responsible service center personnel told us that reconciliations were not performed due to higher priority work. Performing reconciliations is an internal control responsibility of the service centers and the only way service centers can be certain that sales receipts are properly recorded and deposited to ensure the accuracy of accounting records and reports and to prevent undetected losses and thefts at commissary stores.

Recommendations, Management Comments, and Audit Response

We recommend that the Director, Defense Commissary Agency:

1. Establish controls to ensure that store customer service supervisors actually authorize voids and refunds as they occur by signing sheets and logs.

Management Comments. The Director, DeCA, partially concurred and noted that the requirement that a supervisor authorize voids and refunds by initialing is provided in DeCA Directive 40-6, Chapter 4.

2. Establish controls to ensure that commissary store cash collection agents pick up cash receipts from registers when authorized limits are reached.

Management Comments. The Director, DeCA, concurred and stated that a letter will be sent to the regions by September 1, 1994 to verify that stores are making pick ups within the $1,000 and $1,500 criteria and, if waivers are needed, that the stores request them with sufficient documentation on why waivers are needed.

3. Establish controls to ensure that commissary stores make night or central deposits when cash receipt storage limitations are met or seek

higher limit authorizations from the regions. Regions should be made aware that requests for higher limitations are to be justified in comparison with the preferred policy of making deposits.

Management Comments. The Director, DeCA, partially concurred and stated that the procedures to establish limits on cash storage and to make cash deposits are in DeCA Directive 40-6, chapter 10.

4. Establish controls to ensure that all commissary stores change safe combinations when required and that all stores have operational alarm systems, as required by Defense Commissary Agency Directive 40-19.

Management Comments. The Director, DeCA, partially concurred and stated that the commissary officer is responsible for ensuring the commissary store's safe combination is maintained in accordance with DeCA Directive 40-19 and that all commissary stores have operational alarms.

5. Request the U.S. Air Force to provide security escorts for all commissary cash deposits, regardless of actual currency amounts, or obtain similar protection from in-house or commercial sources.

Management Comments. The Director, DeCA, partially concurred and stated that an escort provided by the host installation police agency or a contract armored car service will be used to transfer money from the commissary to the bank or depository as required in DeCA Directory 40-19.

6. Establish controls to ensure that commissary store management support center personnel prepare reports of deposits and record and track dishonored checks.

Management Comments. The Director, DeCA, partially concurred and stated that the procedures and instructions for preparing and submitting reports of deposits are included in DeCA Directive 70-6, chapter 1. The procedures for recording and tracking dishonored checks are included in DeCA Directive 70-6, chapter 5.

7. Amend DeCA Directive 40-6 to specifically require that the customer service department's cash receipt duties be segregated from authorizing sales transactions, processing transactions, holding sales receipts, and making deposits.

Management Comments. The Director, DeCA, concurred and stated that a letter will be sent to the regions by October 1, 1995, expanding on DeCA Directive 40-6.

8. Establish controls to ensure that service centers perform prompt reconciliations of store sales and deposits and that missing or inaccurate data are promptly identified and researched and corrective action taken.

Management Comments. The Director, DeCA, partially concurred and stated that a reconciliation of a commissary store's sales and deposits is performed and completed on a monthly basis as required in DeCA Directive 70-16.

Audit Response. The Director, DeCA, comments are responsive.

Part III - Additional Information

Appendix A. Nonmaterial Internal Control Weaknesses

We identified nonmaterial internal control weaknesses caused by commissary store personnel not fully following prescribed procedures. The weaknesses were either isolated to select stores or occurred infrequently. Thus, the weaknesses did not cause adverse affects that were material enough to warrant formal reporting. Nevertheless, a sound internal control structure requires adherence to control procedures and, if the weaknesses remain unchecked, they could eventually have a material effect on the processing and recording of revenues. The following nonmaterial weaknesses were found.

Vendor Credits. Vendor checks for damaged and slow moving merchandise were not promptly deposited in financial institutions.

Charge Sales. Authority for persons who order and receive merchandise for charge sales customers was not formally established.

Cash Controls. Cash control clerks were not formally designated. Periodic audits by commissary store management of sales receipts and change funds were not documented. Pickups of receipts at registers were made using unlocked bags, and they were not held in safes until deposited. Supervisory reviews of cashier records and forms were not documented.

Appendix B. Organizations Visited or Contacted

Defense Organizations

Defense Commissary Agency, Fort Lee, VA
- East Service Center, Fort Lee, VA
- West Service Center, Kelly Air Force Base, TX
- Central Region, Little Creek Naval Amphibious Base, VA
  - Commissary, Cherry Point Marine Corps Air Station, NC
  - Commissary, Fort Eustis, VA
  - Commissary, Little Creek Naval Amphibious Base, VA
- Midwest Region, Kelly Air Force Base, TX
  - Commissary, Fort Sill, OK
  - Commissary, Sheppard Air Force Base, TX
- Northeast Region, Fort Meade, MD
  - Commissary, Dover Air Force Base, DE
  - Commissary, Fort Monmouth, NJ
  - Commissary, Philadelphia Naval Base, PA
- Northwest/Pacific Region, Fort Lewis, WA
  - Commissary, McChord Air Force Base, WA
  - Commissary, Whidbey Island Naval Air Station, WA
- Southern Region, Maxwell Air Force Base, AL
  - Commissary, Fort Stewart, GA
  - Commissary, Hunter Army Airfield, GA
- Southwest Region, El Toro Marine Corps Air Station, CA
  - Commissary, El Toro Marine Corps Air Station, CA
  - Commissary, Norton Air Force Base, CA
  - Commissary, Port Hueneme Naval Construction Battalion Center, CA

Defense Finance and Accounting Service - Columbus Center, OH

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Personnel and Readiness
Comptroller of the Department of Defense
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Auditor General, Department of the Navy

Department of the Air Force

Secretary of the Air Force
Auditor General, Department of the Air Force

Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Commissary Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, Central Imagery Office
Inspector General, Defense Intelligence Agency
Inspector General, National Security Agency
Director, Defense Logistics Studies Information Exchange

Non-Defense Organizations

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division, U.S. General Accounting Office
Chairman and Ranking Minority Member of Each of the Following Congressional Committees and Subcommittees:

- Senate Committee on Appropriations
- Senate Subcommittee on Defense, Committee on Appropriations
- Senate Committee on Armed Services
- Senate Committee on Governmental Affairs
- House Committee on Appropriations
- House Subcommittee on Defense, Committee on Appropriations
- House Committee on Armed Services
- House Committee on Government Operations
- House Panel on Morale, Welfare and Recreation, Committee on Armed Services
- House Subcommittee on Legislation and National Security, Committee on Government Operations

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Part IV - Management Comments

Defense Commissary Agency Comments

DEFENSE COMMISSARY AGENCY
HEADQUARTERS
FORT LEE, VIRGINIA 23801-6300

REPLY TO
ATTENTION OF

JUL 2 8 1994

IR

MEMORANDUM FOR INSPECTOR GENERAL, LOGISTICS SUPPORT DIRECTORATE, 400 ARMY NAVY DRIVE, ARLINGTON, VA 22202-2884

SUBJECT: Draft Audit Report on Commissary Revenues (Project No. 3LA-2002)

Reference: DoDIG Memorandum, May 26, 1994, SAB.

Per your request in referenced memorandum, attached are our comments to the recommendations and the internal control weaknesses addressed in Part I of subject report.

We concur with the report as written. We recognize the importance of correcting noted store deficiencies and will provide copies of it to our region headquarters for action. In addition, Headquarters personnel will spot check these areas while reviewing store operations.

RICHARD E. BEALE, JR.
Major General, USA
Director

Attachment:
As Stated

DEFENSE COMMISSARY AGENCY REPLY

SUBJECT: Draft Audit Report on Commissary Revenues (Project No. 3LA-2002)

Finding A. Vendor Credits

Recommendation 1. Establish controls to ensure that activities that who solicit and accept vendor credits follow the procedural requirements of Defense Commissary Agency (DeCA) Directive 70-6.

Action Taken. Partially concur. The procedures for accepting and processing vendor credit memorandums (VCM) are established in DeCA Directive 70-6. It is the responsibility of each store to perform internal checks to ensure these procedures are being followed. Collection by offset at the service centers is performed through Standard Automated Voucher Examination System (SAVES). A recent change to SAVES has improved the systems capability to match a VCM to an invoice awaiting payment. Additional systems enhancements are being reviewed to improve the effectiveness of offsetting VCMs.

Recommendation 2. Establish controls to ensure that service centers perform monthly reconciliations of vendor credits entered into the SAVES to store block control journals and hard copy documentation.

Action Taken. Partially concur. The service centers perform monthly reconciliations of the voucher register and general control to the store block control journal to STANFINS as established by procedures in DeCA Directive 70-16. However, the service center does not maintain VCMs in hard copy. These are retained at the store after entering into the store's business system.

Recommendation 3. Establish and implement specific procedures for processing and collecting vendor credits from all vendors and distributors of merchandise, regardless of invoice amounts applicable to vendor contracts or type of sales.

Action Taken. Partially concur. DeCA Directive 70-6 has established procedures for processing and collecting VCMs at the store level. Once the VCM has been entered at the store level, should offset from an invoice be necessary, SAVES is programmed to take the offset at the appropriate time.

Recommendation 4. Program the SAVES to reclassify as receivables those vendor credits that are not automatically deducted from vendor invoices after 30 days.

Action Taken. Partially concur. It is the responsibility of Director, Defense Finance and Accounting Service (DFAS) - Columbus Center to recognize the aged uncollected vendor credits as an accounts receivable on DeCA's trial balance. Currently there is no

accounts receivable established for recording the vendor credits as a receivable.

Finding B. Charge Sales

Recommendation 1. Recommendation addressed to Director, DFAS - Columbus Center.

Recommendation 2.a. Require commissary stores to remind non-Federally funded charge customers of their responsibility to provide prompt receipt documentation to their paying offices.

Action Taken. Concur. This will be included in the next update to DeCA Directive 70-6 which is projected for March 31, 1995. With the implementation of the Electronic Benefit Transfer program, and the use of the credit card, receipt documentation will become automated.

Recommendation 2.b. Establish controls to ensure that commissary stores accept only complete charge sales paperwork from customers.

Action Taken. Partially concur. The charge sale documentation required for new commissary charge sale customers is provided in DeCA Directive 70-6, Chapter 4, to include the steps required for approving the customer as a charge sale customer.

Finding C. Dishonored Checks

Recommendation 1.a. Establish controls to ensure that commissary stores enter the social security numbers of customers with suspended check writing privileges into the stores automated cash registers.

Action Taken. Partially concur. The stores enter the social security numbers of patrons into the automated cash registers as required in DeCA Directive 40-6, Chapter 6. This step was inadvertently omitted from DeCA Directive 70-6, although the step to remove the social security number from the cash register is included. The requirement as stated in DeCA Directive 40-6 will be included in the next update to DeCA Directive 70-6 planned for March 31, 1995.

Recommendation 1.b. Consider, in coordination with the DFAS - Columbus Center, the establishment of procedures for identifying and monitoring customers with suspended check writing privileges on a region or agency-wide basis.

Action Taken. Concur. We recognize a system is needed to prevent customers with suspended check writing privileges at a commissary from writing checks in other commissaries; however, due to the amount of labor involved, we can not feasibly accomplish this at

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this time. This control will be part of our new cash register system which is scheduled for deployment by January 1996. In the interim, one alternative we are looking into is the feasibility of importing AAFES's list of customers with suspended check writing privileges into our cash register system. Another is modifying an existing price change system to include dishonored check information as part of the information downloaded to the stores.

Recommendation 1.c. Establish controls to ensure that commissary stores transfer collection responsibility for uncollected dishonored checks to DFAS - Columbus Center after 30 days.

Action Taken. Partially concur. The procedures for transferring collection responsibility for uncollected dishonored checks to DFAS - Columbus Center is provided in DeCA Directive 70-6, Chapter 5.

Recommendation 2. Recommendation addressed to Director, DFAS - Columbus Center.

Finding D. Cash Controls

Recommendation 1. Establish controls to ensure that store customer service supervisors actually authorize voids and refunds as they occur by signing sheets and logs.

Action Taken. Partially concur. The requirement that a supervisor authorize voids and refunds by initialing is provided in DeCA Directive 40-6, Chapter 4. To prevent unnecessary delays in processing, the review of voids of less than $6 will occur at the close of a cashier duty day.

Recommendation 2. Establish controls to ensure that store cash collection agents pick up cash receipts from registers when authorized limits are reached.

Action Taken. Partially concur. Procedures in DeCA Directive 40-6 call for media pickups of between $1000 and $1500 or not more than $3000 if authorized by region waiver. The Management Control Review Checklist also requires the stores to assess if they comply with this requirement. DeCA IG also reviews this when they conduct an inspection. A letter will be sent to the regions by September 1, 1994 to verify what stores are making pick-ups within the $1000 and $1500 criteria and if waivers are needed that the stores request them with sufficient documentation on why it is needed.

Recommendation 3. Establish controls to ensure that stores make night or central deposits when cash receipt storage limitations are met or seek higher limit authorizations from the regions. Regions should be made aware that requests for higher limitations are to be justified in comparison to the preferred policy of making deposits.

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Action Taken. Partially concur. The procedures to established limits on cash storage and to make cash deposits are provided in DeCA Directive 40-6, Chapter 10.

Recommendation 4. Establish controls to ensure that all stores change safe combinations when required and that all stores have operational alarm systems, as required by DeCA Directive 40-19.

Action Taken. Partially concur. It is the responsibility of the commissary officer to ensure the store's safe combination is maintained in accordance with DeCA Directive 40-19 and that all stores have operational alarm systems.

Recommendation 5. Request the U.S. Air Force to provide security escorts for all commissary cash deposits, regardless of actual currency amounts, or obtain similar protection from in-house or commercial sources.

Action Taken. Partially concur. An escort provided by the host installation police agency or a contract armored car service will be used to transfer money from the commissary to the bank or depository as required in DeCA Directive 40-19.

Recommendation 6. Establish controls to ensure that store management support center personnel prepare reports of deposits and record and track dishonored checks.

Action Taken. Partially concur. The procedures and instructions for preparing and submitting reports of deposits are included in DeCA Directive 70-6, Chapter 1. The procedures for recording and tracking dishonored checks are included in DeCA Directive 70-6, Chapter 5.

Recommendation 7. Amend DeCA Directive 40-6 to specifically require that the customer service department's cash receipt duties be segregated from authorizing sales transactions, processing transactions, holding sales receipts, and making deposits.

Action Taken. Partially concur. A letter will be sent to the regions by October 1, 1995 expanding on DeCA Directive 40-6. Limited resources to operate the cash registers require DeCA to use personnel the most efficient way, but maintain controls and separation of duties. Since cash control clerks frequently perform relief cashier functions, the separation of duties will be limited to their own cash drawer and not all cashiers.

Recommendation 8. Establish controls to ensure that service centers perform prompt reconciliations of store sales and deposits and that missing or inaccurate data are promptly identified and researched and corrective action taken.

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Action Taken. Partially concur. Reconciliation of store's sales and deposits is performed and completed on a monthly basis as required in DeCA Directive 70-16.

Internal Control Weaknesses. We concur that internal control weaknesses existed in the areas addressed in the report and actions are being taken to correct these areas.

Defense Finance & Accounting Service Comments

DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

JUL 25 1994

DFAS-HQ/AD

MEMORANDUM FOR DIRECTOR, LOGISTICS SUPPORT DIRECTORATE
INSPECTOR GENERAL, DOD

SUBJECT: DoDIG Draft Audit Report, "Commissary Revenues" (Project No. 3LA-2002)

We have reviewed the subject draft. Attached are the management responses related to the recommendations addressed to the Defense Finance and Accounting Service.

My point of contact concerning this management comment is Mr. David C. Morton. He may be reached at (703) 607-1581/1579 or DSN 327-1581/1579

Daniel Turner
Deputy Director for Business Funds

Attachment

Department of Defense Draft of a Proposed Audit Report, "Commissary Revenues," (Project No. 3LA-2002)

- **Finding B, Recommendation 1a:** Director, Defense Finance and Accounting Service - Columbus Center use interfund billing procedures to collect debts for charge sales from Federally funded commissary customers.

  DFAS comments: Non concur. The Standard Financial System (STANFINS) does not have the capability to handle interfund billing procedures as a stand alone system. STANFINS is teamed with a supply system which handles the billings in an Army environment. The Automated System for Army Commissaries (ASAC) does not have the capabilities to originate interfund bills. Due to the magnitude of system changes that would be required to accommodate interfund billing, we will have to wait until a new system is developed that would replace ASAC.

- **Finding B, Recommendation 1b:** Director, Defense Finance and Accounting Service - Columbus Center activate the automatic follow-up feature of its automated accounting system to send a follow up letter on all delinquent accounts receivable customers.

  DFAS comments: Concur. The automatic follow-up feature of STANFINS will be activated.

  Estimated completion date: December 31, 1994

- **Finding C, Recommendation 2:** Director, Defense Finance and Accounting Service - Columbus Center initiate immediate involuntary collection procedures on all dishonored checks valued at $100 or more that were transferred for collection responsibility.

  DFAS comments: Concur. Although DFAS experienced delays in the development of systems and policies, the necessary procedures and resources are now in place to ensure timely processing of involuntary collection actions. DFAS has further improved the timeliness of these actions through utilization of an automated interface to the Defense Joint Military Pay System (DJMS). Work is in process to develop a similar interface with Defense Debt Management System (DDMS) to expedite collection of Out-of-Service debts.

  Estimated completion date: December 31, 1994

Attachment

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INTERNET DOCUMENT INFORMATION FORM

A . Report Title: Commissary Revenues

B. DATE Report Downloaded From the Internet: 03/16/99

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #):
OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by:
DTIC-OCA, Initials: __VM__ Preparation Date 03/16/99

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